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The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

NIC 03402-88
2 December 1988

MEMORANDUM FOR THE RECORD

SUBJECT: Economic Policy Council Meeting on Canadian Shakes and Shingles

The EPC meeting aimed at resolving an inter-agency policy dispute on whether to end or reduce the level of import relief for US firms producing red cedar shakes and shingles. The relief applies a 35 percent tariff to imports; the tariff would be reduced in stages to 8 percent two years hence as the 5-year program nears its conclusion. The group decided to present the President with three options:

-- Continue the current plan for the remaining two and a half years,
-- Reduce tariffs more rapidly during that period, or
-- End the relief program.

The disagreement within the EPC hinged on economic versus political considerations. USTR and Commerce are concerned that ending the relief would imply to Congress that the President is not serious about protecting US industry. All agreed that, because of a doubling in prices for shakes and shingles, the economic merit for the case has ended.

Deane E Hoffmann

Deane E. Hoffmann

Attachments:
A. List of Meeting Participants
B. Agenda and Background

cc: DCI/EA/[redacted](w/atts) 25X1
D/DI/EURA (w/o atts)
D/DI/OGI (w/o atts)
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THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

December 2, 1988

11:00 a.m.

Roosevelt Room

AGENDA

1. Continuation of Import Relief for U.S. Wood Shakes and Shingles Industry

2. Report on Mid-term Review Meeting of the Uruguay Round, December 5 - 8, 1988 in Montreal, Canada

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December 2, 1988

PARTICIPANTS

Secretary Brady, Chairman Pro Tempore

Secretary Lyng
Ambassador Yeutter
Deputy Secretary Tuttle
(Representing Secretary Verity)
Deputy Secretary Whitfield
(Representing Secretary McLaughlin)
Deputy Secretary Dawson
(Representing Secretary Burnley)
Under Secretary Wallis
(Representing Secretary Shultz)
Deputy Director Cogan
(Representing Director Wright)
Dr. Moore
(Representing Chairman Sprinkel)

Dan L. Crippen, Assistant to the President for Domestic Affairs
William J. Maroni, Special Assistant to the President and Executive Secretary

Additional Attendees

Rebecca G. Range, Assistant to the President and Director of the Office of Public Liaison
John C. Tuck, Assistant to the President and Director of the Office of the Chief of Staff
David S. Addington, Deputy Assistant to the President for Legislative Affairs
Mari Maseng, Assistant to the President for Communications and Planning
Dean McGrath, Assistant Counsel to the President
John Negroponte, Deputy Assistant to the President for National Security Affairs
Franmarie Kennedy-Keel, Deputy Assistant to the President for Policy Development
Karen Spencer, Deputy Assistant to the President and Director of Intergovernmental Affairs
B.J. Cooper, Special Assistant to the President and Deputy Press Secretary
Charles Greenleaf, Deputy Chief of Staff to the Vice President

Deanne Hoffmann, NIO for Economics, Central Intelligence Agency
Alan Holmer, Deputy United States Trade Representative

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THE WHITE HOUSE

WASHINGTON

November 29, 1988

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: WILLIAM J. MARONI

SUBJECT: Agenda and Paper for the December 2 Meeting

The Economic Policy Council will meet on Friday, December 2 at 11:00 a.m. in the Roosevelt Room. The agenda and paper for the meeting are attached.

The first agenda item is continuation of tariff relief for the domestic wood shakes and shingles industry. In May 1986, the President decided to provide import relief for U.S. producers for five years in the form of a tariff on imports of western red cedar shakes and shingles. He also decided that he would review this relief program after the first 30 months based on certain factors to determine if relief should continue. Attached is a copy of the President's 1986 decision. Prior to making his decision, the Economic Policy Council held two meetings in May 1986 on the subject of whether or not to grant the U.S. industry import relief under Section 201 of the Trade Act.

In considering the issue of continuation of the import relief, the Trade Policy Review Group (TPRG) was unable to reach consensus on a recommendation for the EPC. Several agencies believe import relief should continue for the full five years because the industry has made efforts to adjust. Also, the most significant market condition at the time of the 1986 decision remains unchanged, namely Canada's restrictions on access to supplies of red cedar. These agencies argue that the U.S. industry was encouraged to plan for a five year adjustment period. Other agencies believe the relief should be terminated now because it has increased costs to consumers and has had a deleterious effect on the future of the U.S. industry by removing competitive pressure. Relief, it is claimed, has reduced incentives to find alternatives to red cedar and has caused Canada to impose its current ban on exports of cedar logs to the United States.

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As a result of this division among agencies, the TPRG also discussed a compromise option that would decrease the current tariffs more quickly than originally planned over the remaining 30 months of the relief period. While many agencies saw merit in this compromise, some agencies insisted on a dissenting view. The attached TPRG paper presents all three options (continuation, termination, modification) for the EPC's consideration.

The President must decide by Tuesday, December 6 whether to continue, terminate, or modify the 1986 import relief program for the duration of the five year period.

The second agenda item is a brief update on the Mid-term Review meeting of the Uruguay Trade Round scheduled to take place in Montreal next week. Ambassador Yeutter will present a last minute review of plans and expectations. A follow-up EPC meeting on the results of the Montreal negotiations is expected in mid-December.

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ECONOMIC POLICY COUNCIL

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THE WHITE HOUSE

WASHINGTON

May 23, 1986

MEMORANDUM FOR THE UNITED STATES TRADE REPRESENTATIVE

SUBJECT: Western Red Cedar Shakes and Shingles Import Relief Determination

Pursuant to Section 202(b)(1) of the Trade Act of 1974 (19 U.S.C. 2251(b)(1)), I have determined the action I will take with respect to the report of the United States International Trade Commission (ITC), transmitted to me on March 25, 1986, concerning the results of its investigation of a petition for import relief filed by the Northwest Independent Forest Manufacturers on behalf of the domestic industry producing wood shakes and shingles, provided for in item 200.85 of the Tariff Schedules of the United States.

After considering all relevant aspects of the case, including those set forth in Section 202(c) of the Trade Act of 1974, I have determined that provision of import relief in the form of a tariff for up to 5 years is in the national economic interest. The tariff will apply to all U.S. imports of western red cedar shakes and shingles. The additional duty will be 35 percent ad valorem for the first 30 months of the period, 20 percent ad valorem for months 30 through 54, and 8 percent ad valorem for months 54 through 60. This 5-year relief program should be sufficient to enable the domestic producers of red cedar shakes and shingles to adjust to competition during the relief period.

In conjunction with providing import relief, I hereby direct you to request that the ITC advise me of the probable economic effect on the domestic industry of the termination of import relief after 30 months. This advice is to include a review of the progress and specific efforts being made by the domestic producers of western red cedar shakes and shingles to adjust to import competition. I also direct you to request, on my behalf, advice regarding termination of relief from the Secretaries of Commerce and Labor. The ITC, Commerce, and Labor advice is to be provided to me, through you, 3 months prior to the expiration of the 30-month period. It is my intention to continue relief for the entire 5-year period if general market conditions continue to warrant relief and if the domestic producers have begun to make reasonable progress toward adjustment during the first 30-month period.

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As required by Section 203(e)(1) of the Trade Act of 1974, this tariff will be implemented by Presidential Proclamation no later than June 7, 1986, which is the 15th day after the date of this determination.

This determination shall be published in the Federal Register.

Ronald Reagan

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THE WHITE HOUSE

WASHINGTON

May 23, 1986

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

SUBJECT: Presidential Policy Directive -- Section 201 Shakes and Shingles Petition

Pursuant to the Economic Policy Council memorandum of May 19, the President has decided to provide relief to the domestic shakes and shingles industry through a five-year degressive tariff, with a thirty month review of the industry's adjustment efforts.

James A. Baker III

James A. Baker, III
Chairman Pro Tempore

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OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

November 29, 1988

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

From: Trade Policy Review Group

Subject: Continuation of Tariff Relief for the Domestic Wood Shakes and Shingles Industry

Issue

On May 23, 1986, the President determined to provide import relief for the industry producing wood shakes and shingles in the form of a tariff for up to five years on imports of western red cedar shakes and shingles. The tariff was set at 35 percent for the first 30 months, 20 percent for the next 24 months and eight percent for the final six months. He also determined that, prior to the end of the first 30 months of relief, he would review this program to determine if relief continued to be warranted.

Various agencies in the Trade Policy Review Group (TPRG) supported a compromise which would have phased tariffs down more sharply during the remaining 30 months of the President's relief program (option 3). However, other agencies supported consideration by the President of the arguments in favor of elimination of relief. Therefore, a consensus could not be reached, and the EPC needs to review the options and make its recommendation to the President.

Background

The President's import relief action, which went into effect on June 7, 1986, followed a determination by the U.S. International Trade Commission that such shakes and shingles were being imported into the United States in such increased quantities as to be a substantial cause of serious injury to the domestic industry producing articles like or directly competitive with the imported articles.

In considering whether import relief was appropriate in this case, the Economic Policy Council advised the President that evidence and projections regarding the industry's ability to adjust to import competition were sufficiently inconclusive so as to warrant a mid-course review of the import relief and industry adjustment efforts. One principal concern raised involved the

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declining availability of western red cedar, which is the principal input into shake and shingle production. The Economic Policy Council determined in 1986 that, to improve the long-term competitiveness of the industry, the United States would need to obtain access to restricted Canadian supplies of western red cedar or find alternative raw material inputs.

Accordingly, the President's memorandum to the USTR directed that he request the U.S. International Trade Commission (USITC) to advise him of the probable economic effect on the domestic industry of the termination of import relief after 30 months, or on December 7, 1988. The USTR also requested advice from the Secretaries of Labor and Commerce regarding termination of relief and workers' and firms' use of adjustment assistance during the initial relief period. On October 6, 1988, the USITC voted in a 3-3 decision regarding whether continued import relief would result in adjustments that would enhanced the competitiveness of the domestic industry.

In proclaiming this import relief program, the President indicated his intention to continue tariff protection for the full five-year period "if general market conditions continue to warrant relief and if the domestic producers have begun to make reasonable progress toward adjustment during the first 30-month period." The Economic Policy Council must decide whether these conditions have been met and, in light of this, whether import relief according to the increased tariff schedule originally proclaimed continues to be in the national economic interest.

<u>General Market Conditions</u>

o In discussing "general market conditions" in 1986, the Economic Policy Council was referring primarily to Canadian restrictions on access to supplies of western red cedar. The situation with Canada has not changed.

o The EPC also deemed it particularly important that the domestic industry make serious efforts to find substitute raw materials, for example, treated whitewoods.

o In its projected adjustment program, the U.S. industry indicated it would be willing to match Forest Service funding for research into alternative whitewood raw materials were such USG funding made available.

o Access to Canadian (and certain USG) supplies of western red cedar continues to be restricted, despite numerous bilateral negotiations.

o Since relief was imposed, employment, production, capacity utilization, and sales in the domestic industry have increased. The rapidly deteriorating debt to equity condition of the industry has been greatly improved.

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o Import penetration has declined from more than 70 percent to less than 60 percent.

o The industry is facing a declining market. U.S. consumption of shakes and shingles fell to 5.4 million squares in 1987 from 6.2 million squares in 1986 (or 15 percent), and has continued to decline in 1988, despite a strong housing market.

o The industry also faces increased competition from substitutes, such as tile. Higher prices for shakes and shingles caused in part by the tariff have exacerbated this situation.

o Much of the profit from the higher prices of shakes and shingles has gone to loggers in the form of higher timber prices. Thus, the primary economic effect of the import relief program has been to transfer wealth from consumers to loggers and only secondarily to the shake and shingle industry.

U.S. Industry Adjustment Efforts

o U.S. industry has matched USDA Forest Service funding, at the rate of $100,000 per year, to facilitate USG research into alternative species that might serve as acceptable substitutes for red cedar in the manufacture primarily of shakes.

o The industry has indicated to the Forest Service that it expects to have durable, non-splitting whitewood shakes on the market within a year. However, it is doubtful that a commercially viable fire-resistant product will be available within that timeframe.

o Some expansion or upgrading of plant and equipment has occurred, although there is serious question regarding whether these actions have led to a real improvement in long-term competitiveness.

o Only the three largest firms appear to be positioned to benefit from whitewood research; however, increased use of whitewoods by the larger firms would increase supplies of red cedar for use by some of the smaller firms.

OPTIONS

Option 1 -- Discontinue Import Relief

Advantages

o Could have a positive impact during Canada's consideration of the Free Trade Agreement.

o Would eliminate much of the current additional cost to consumers (with estimates between $17 million and $32 million annually) and reduce timber prices.

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- o Would lead to Canada's elimination of its current federal ban on exports of western red cedar logs, blocks and bolts, i.e., a return to policies prevailing in Canada prior to the U.S. imposition of the tariff. (Under these conditions, however, there would still be little access to Canadian raw material supplies, due to provincial export restrictions.)

- o Increased competitive pressure due to the removal of protection increases private incentives for research into alternative species. This could accelerate adoption of alternative species as raw material inputs.

Disadvantages

- o Would call into question the use of section 201 as a means of providing relief for adjustment.

- o Would expose the President to criticism from the Congress, since the central market condition -- U.S. access to Canadian western red cedar -- remains unchanged. The U.S. industry has unquestionably made good faith efforts to adjust.

- o Could discourage further public/private research into the use of alternative raw materials and less costly methods of ensuring anti-flammability.

Option 2 -- Follow Import Relief Schedule as Originally Proclaimed

Advantages

- o Keeps faith with U.S. industry, some of whom have made productivity improvement and other investment and employment plans based on the continuation of tariff relief.

- o Shows Congress the Executive Branch is committed to the use of section 201 as a means of facilitating adjustment through temporary import protection.

- o Would afford the industry its full protected opportunity to conduct research into alternative raw materials species.

- o Reducing the tariff to 20 percent from the current 35 would be consistent with our normal practice of degressivity under section 201.

Disadvantages

- o Not clear that any tariff will be effective in promoting industry viability, since most domestic profits from price rises in shakes and shingles have been diverted to purchase higher priced timber; productivity by mills responding to

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the USITC questionnaire rose only one percentage point from 1985 to the January-June 1988 period.

- o Increases in shake and shingle industry employment have come at the expense of jobs in the wholesaling, distribution and importing sectors.

- o The industry has already lost some market share to alternative roofing and siding materials. Although this trend could be reversed somewhat under the lower tariff, lost markets may not be recovered.

- o Benefits received by producers as a result of a tariff come at the expense of consumers, including roofers.

- o Unlikely that tariff would promote effective adjustment over the longer term absent any change in underlying market conditions, e.g., access to Canadian red cedar logs or commercially viable development of alternative raw material inputs.

Option 3 -- Decrease Tariffs More Sharply over the Remaining 30 Months of the Relief Period

During the TPRG meeting, a compromise position was proposed wherein tariffs for the 12 months would be set at the 20 percent level originally proclaimed but would decline more sharply thereafter. As a result, for the following 12 months, the rate would be 10 percent (rather than 20 percent) and would decline to five percent (rather than eight percent) for the final six months.

Advantages

- o Would retain the anticipated tariff protection for the next 12 months, which is the timeframe during which the industry expects to complete development of alternative whitewood raw materials. Thus, there should be little disruption for the domestic industry.

- o Would incorporate greater degressivity.

- o Should be more acceptable to the Canadians than the original tariff schedule.

- o Would be less likely to lead to a domestic industry petition for a three-year extension of tariff relief once this relief expires since that extension can be at a rate no higher than the final rate imposed in the original relief period (i.e., no higher than five percent).

- o Would demonstrate to the Congress that the Executive Branch is committed to the use of section 201 relief, even though mid-course reviews may require certain adjustments.

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- Would mean continued higher employment, production, prices and profitability in the shake and shingle industry during the relief period.

- Reflects USG recognition that some market conditions-- albeit not U.S. access to Canadian western red cedar -- have changed.

Disadvantages

- Same as in option 2 above.

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Remarks

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Executive Secretary

30 Nov '88

Date

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THE WHITE HOUSE
WASHINGTON

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Executive Registry
88-4398X

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 11/29/88 **Number:** 490-779 **Due By:** xxxxxxx

Subject: Shakes and Shingles and Mid-Term Review meeting in Montreal

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	☐	☐	CEA	☑	☐
Vice President	☐	☑	CEQ	☐	☐
State	☑	☐	OSTP	☐	☐
Treasury	☑	☐	______	☐	☐
Defense	☐	☐	______	☐	☐
Justice	☐	☐	______	☐	☐
Interior	☐	☐	______	☐	☐
Agriculture	☑	☐			
Commerce	☑	☐	Carlucci	☐	☐
Labor	☑	☐	Crippen	☑	☐
HHS	☐	☐	~~Bauer~~ Kennedy-Keel	☑	☐
HUD	☐	☐	Dawson *(For WH Staffing)*	☑	☐
Transportation	☑	☐	______	☐	☐
Energy	☐	☐	______	☐	☐
Education	☐	☐	______	☐	☐
Chief of Staff	☐	☐	______	☐	☐
OMB	☑	☐	______	☐	☐
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USTR	☑	☐			
CIA	☑	☐	**Executive Secretary for:**		
EPA	☐	☐	DPC	☐	☑
GSA	☐	☐	EPC	☑	☐
NASA	☐	☐	______	☐	☐
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SBA	☐	☐	______	☐	☐
VA	☐	☐	______	☐	☐

REMARKS:

The Economic Policy Council will meet on Friday, December 2, 1988 at 11:00 a.m. in the Roosevelt Room. Background materials are attached for your review.

RETURN TO:

☐ Nancy J. Risque
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Associate Director
Office of Cabinet Affairs
456-2800
(Room 235, OEOB)

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THE WHITE HOUSE

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ECONOMIC POLICY COUNCIL

December 2, 1988

11:00 a.m.

Roosevelt Room

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THE WHITE HOUSE

WASHINGTON

May 23, 1986

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SUBJECT: Western Red Cedar Shakes and Shingles Import Relief Determination

Pursuant to Section 202(b)(1) of the Trade Act of 1974 (19 U.S.C. 2251(b)(1)), I have determined the action I will take with respect to the report of the United States International Trade Commission (ITC), transmitted to me on March 25, 1986, concerning the results of its investigation of a petition for import relief filed by the Northwest Independent Forest Manufacturers on behalf of the domestic industry producing wood shakes and shingles, provided for in item 200.85 of the Tariff Schedules of the United States.

After considering all relevant aspects of the case, including those set forth in Section 202(c) of the Trade Act of 1974, I have determined that provision of import relief in the form of a tariff for up to 5 years is in the national economic interest. The tariff will apply to all U.S. imports of western red cedar shakes and shingles. The additional duty will be 35 percent ad valorem for the first 30 months of the period, 20 percent ad valorem for months 30 through 54, and 8 percent ad valorem for months 54 through 60. This 5-year relief program should be sufficient to enable the domestic producers of red cedar shakes and shingles to adjust to competition during the relief period.

In conjunction with providing import relief, I hereby direct you to request that the ITC advise me of the probable economic effect on the domestic industry of the termination of import relief after 30 months. This advice is to include a review of the progress and specific efforts being made by the domestic producers of western red cedar shakes and shingles to adjust to import competition. I also direct you to request, on my behalf, advice regarding termination of relief from the Secretaries of Commerce and Labor. The ITC, Commerce, and Labor advice is to be provided to me, through you, 3 months prior to the expiration of the 30-month period. It is my intention to continue relief for the entire 5-year period if general market conditions continue to warrant relief and if the domestic producers have begun to make reasonable progress toward adjustment during the first 30-month period.

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As required by Section 203(e)(1) of the Trade Act of 1974, this tariff will be implemented by Presidential Proclamation no later than June 7, 1986, which is the 15th day after the date of this determination.

This determination shall be published in the Federal Register.

Ronald Reagan

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THE WHITE HOUSE

WASHINGTON

May 23, 1986

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

SUBJECT: Presidential Policy Directive -- Section 201 Shakes and Shingles Petition

Pursuant to the Economic Policy Council memorandum of May 19, the President has decided to provide relief to the domestic shakes and shingles industry through a five-year degressive tariff, with a thirty month review of the industry's adjustment efforts.

James A. Baker III

James A. Baker, III
Chairman Pro Tempore

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OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

November 29, 1988

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

From: Trade Policy Review Group

Subject: Continuation of Tariff Relief for the Domestic Wood Shakes and Shingles Industry

Issue

On May 23, 1986, the President determined to provide import relief for the industry producing wood shakes and shingles in the form of a tariff for up to five years on imports of western red cedar shakes and shingles. The tariff was set at 35 percent for the first 30 months, 20 percent for the next 24 months and eight percent for the final six months. He also determined that, prior to the end of the first 30 months of relief, he would review this program to determine if relief continued to be warranted.

Various agencies in the Trade Policy Review Group (TPRG) supported a compromise which would have phased tariffs down more sharply during the remaining 30 months of the President's relief program (option 3). However, other agencies supported consideration by the President of the arguments in favor of elimination of relief. Therefore, a consensus could not be reached, and the EPC needs to review the options and make its recommendation to the President.

Background

The President's import relief action, which went into effect on June 7, 1986, followed a determination by the U.S. International Trade Commission that such shakes and shingles were being imported into the United States in such increased quantities as to be a substantial cause of serious injury to the domestic industry producing articles like or directly competitive with the imported articles.

In considering whether import relief was appropriate in this case, the Economic Policy Council advised the President that evidence and projections regarding the industry's ability to adjust to import competition were sufficiently inconclusive so as to warrant a mid-course review of the import relief and industry adjustment efforts. One principal concern raised involved the

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declining availability of western red cedar, which is the principal input into shake and shingle production. The Economic Policy Council determined in 1986 that, to improve the long-term competitiveness of the industry, the United States would need to obtain access to restricted Canadian supplies of western red cedar or find alternative raw material inputs.

Accordingly, the President's memorandum to the USTR directed that he request the U.S. International Trade Commission (USITC) to advise him of the probable economic effect on the domestic industry of the termination of import relief after 30 months, or on December 7, 1988. The USTR also requested advice from the Secretaries of Labor and Commerce regarding termination of relief and workers' and firms' use of adjustment assistance during the initial relief period. On October 6, 1988, the USITC voted in a 3-3 decision regarding whether continued import relief would result in adjustments that would enhanced the competitiveness of the domestic industry.

In proclaiming this import relief program, the President indicated his intention to continue tariff protection for the full five-year period "if general market conditions continue to warrant relief and if the domestic producers have begun to make reasonable progress toward adjustment during the first 30-month period." The Economic Policy Council must decide whether these conditions have been met and, in light of this, whether import relief according to the increased tariff schedule originally proclaimed continues to be in the national economic interest.

General Market Conditions

o In discussing "general market conditions" in 1986, the Economic Policy Council was referring primarily to Canadian restrictions on access to supplies of western red cedar. The situation with Canada has not changed.

o The EPC also deemed it particularly important that the domestic industry make serious efforts to find substitute raw materials, for example, treated whitewoods.

o In its projected adjustment program, the U.S. industry indicated it would be willing to match Forest Service funding for research into alternative whitewood raw materials were such USG funding made available.

o Access to Canadian (and certain USG) supplies of western red cedar continues to be restricted, despite numerous bilateral negotiations.

o Since relief was imposed, employment, production, capacity utilization, and sales in the domestic industry have increased. The rapidly deteriorating debt to equity condition of the industry has been greatly improved.

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o Import penetration has declined from more than 70 percent to less than 60 percent.

o The industry is facing a declining market. U.S. consumption of shakes and shingles fell to 5.4 million squares in 1987 from 6.2 million squares in 1986 (or 15 percent), and has continued to decline in 1988, despite a strong housing market.

o The industry also faces increased competition from substitutes, such as tile. Higher prices for shakes and shingles caused in part by the tariff have exacerbated this situation.

o Much of the profit from the higher prices of shakes and shingles has gone to loggers in the form of higher timber prices. Thus, the primary economic effect of the import relief program has been to transfer wealth from consumers to loggers and only secondarily to the shake and shingle industry.

U.S. Industry Adjustment Efforts

o U.S. industry has matched USDA Forest Service funding, at the rate of $100,000 per year, to facilitate USG research into alternative species that might serve as acceptable substitutes for red cedar in the manufacture primarily of shakes.

o The industry has indicated to the Forest Service that it expects to have durable, non-splitting whitewood shakes on the market within a year. However, it is doubtful that a commercially viable fire-resistant product will be available within that timeframe.

o Some expansion or upgrading of plant and equipment has occurred, although there is serious question regarding whether these actions have led to a real improvement in long-term competitiveness.

o Only the three largest firms appear to be positioned to benefit from whitewood research; however, increased use of whitewoods by the larger firms would increase supplies of red cedar for use by some of the smaller firms.

OPTIONS

Option 1 -- Discontinue Import Relief

Advantages

- Could have a positive impact during Canada's consideration of the Free Trade Agreement.
- Would eliminate much of the current additional cost to consumers (with estimates between $17 million and $32 million annually) and reduce timber prices.

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- o Would lead to Canada's elimination of its current federal ban on exports of western red cedar logs, blocks and bolts, i.e., a return to policies prevailing in Canada prior to the U.S. imposition of the tariff. (Under these conditions, however, there would still be little access to Canadian raw material supplies, due to provincial export restrictions.)

- o Increased competitive pressure due to the removal of protection increases private incentives for research into alternative species. This could accelerate adoption of alternative species as raw material inputs.

<u>Disadvantages</u>

- o Would call into question the use of section 201 as a means of providing relief for adjustment.

- o Would expose the President to criticism from the Congress, since the central market condition -- U.S. access to Canadian western red cedar -- remains unchanged. The U.S. industry has unquestionably made good faith efforts to adjust.

- o Could discourage further public/private research into the use of alternative raw materials and less costly methods of ensuring anti-flammability.

<u>Option 2 -- Follow Import Relief Schedule as Originally Proclaimed</u>

<u>Advantages</u>

- o Keeps faith with U.S. industry, some of whom have made productivity improvement and other investment and employment plans based on the continuation of tariff relief.

- o Shows Congress the Executive Branch is committed to the use of section 201 as a means of facilitating adjustment through temporary import protection.

- o Would afford the industry its full protected opportunity to conduct research into alternative raw materials species.

- o Reducing the tariff to 20 percent from the current 35 would be consistent with our normal practice of degressivity under section 201.

<u>Disadvantages</u>

- o Not clear that any tariff will be effective in promoting industry viability, since most domestic profits from price rises in shakes and shingles have been diverted to purchase higher priced timber; productivity by mills responding to

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the USITC questionnaire rose only one percentage point from 1985 to the January-June 1988 period.

- o Increases in shake and shingle industry employment have come at the expense of jobs in the wholesaling, distribution and importing sectors.

- o The industry has already lost some market share to alternative roofing and siding materials. Although this trend could be reversed somewhat under the lower tariff, lost markets may not be recovered.

- o Benefits received by producers as a result of a tariff come at the expense of consumers, including roofers.

- o Unlikely that tariff would promote effective adjustment over the longer term absent any change in underlying market conditions, e.g., access to Canadian red cedar logs or commercially viable development of alternative raw material inputs.

Option 3 -- Decrease Tariffs More Sharply over the Remaining 30 Months of the Relief Period

During the TPRG meeting, a compromise position was proposed wherein tariffs for the 12 months would be set at the 20 percent level originally proclaimed but would decline more sharply thereafter. As a result, for the following 12 months, the rate would be 10 percent (rather than 20 percent) and would decline to five percent (rather than eight percent) for the final six months.

Advantages

- o Would retain the anticipated tariff protection for the next 12 months, which is the timeframe during which the industry expects to complete development of alternative whitewood raw materials. Thus, there should be little disruption for the domestic industry.

- o Would incorporate greater degressivity.

- o Should be more acceptable to the Canadians than the original tariff schedule.

- o Would be less likely to lead to a domestic industry petition for a three-year extension of tariff relief once this relief expires since that extension can be at a rate no higher than the final rate imposed in the original relief period (i.e., no higher than five percent).

- o Would demonstrate to the Congress that the Executive Branch is committed to the use of section 201 relief, even though mid-course reviews may require certain adjustments.

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- o Would mean continued higher employment, production, prices and profitability in the shake and shingle industry during the relief period.

- o Reflects USG recognition that some market conditions-- albeit not U.S. access to Canadian western red cedar -- have changed.

Disadvantages

- o Same as in option 2 above.

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